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DIRECTORATE OF INTELLIGENCE

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Developments in China's Construction and Housing

China's construction efforts, including housing, and developments in its building materials industries this year have reflected both the influence of cooperation with the West and the potential for greater U.S. government participation in this sector of China's economy. Possible areas for further US involvement in government-to-government cooperation include bidding and contracting procedures for large capital projects, urban survey work, and government-managed construction, sales, and financing of housing. Areas of discussion leading to sales potential for U.S. businesses include prefabricated housing and housing package development. Ongoing deals and negotiations with Japanese and Australian firms indicate a premium is placed by the Chinese on concessionary financing linked to prospective ventures. The protocol is thus more likely to succeed in producing governmental and technical exchanges than in advancing U.S. business interests. [redacted]

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Changes in Construction Policies

The Chinese in April announced major reforms for the building industry that attempt to create a more efficient approach to capital construction. Li Ximing, the Minister of Urban and Rural Construction and Environmental Protection (MURCEP), outlined four areas of reform:

This memorandum was prepared by [redacted] Development Issues Branch, China Division, Office of East Asian Analysis. Information available as of 9 October 1984 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Development Issues Branch, China Division, OEA, on [redacted]

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- o The introduction of bidding procedures in awarding construction projects. Collectives and rural construction teams would be allowed to compete for construction projects with state-owned construction organizations. Li hopes to cut construction costs and improve productivity in the state-owned construction companies. Special and larger projects would be exempt from use of bidding.
- o Extension of building industry activities into the countryside. Rural construction has skyrocketed as peasants use the profits they earn under agricultural incentive programs to build new houses. Rural housing has been wasteful, however, both in building over valuable farmland and in its consumption of building materials. China now is promoting the development of small towns and more standardized construction of rural dwellings to minimize waste of farmland and building materials.
- o Increased emphasis on contract workers. MURCEP hopes to reduce the wage bills of many construction organizations whose demands for labor are seasonal or periodic by allowing them to hire workers on contract as needed.
- o Pegging total wages to the value of the job. MURCEP hopes to reduce wage bills even further, while promoting work efficiency. In the past, total wages were calculated using the total number of workers and the time spent on the job, with no incentive to avoid time and cost over-runs. MURCEP also indicated that there would be neither a minimum wage nor a cap on earnings for construction workers.

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These reforms have been experimented with to some extent in China's special economic zones, and in Chongqing, Sichuan. A noteworthy development has been the readiness of rural collectives to compete effectively on small-scale projects. China claims that five million peasants are now working on urban construction projects all over China. These peasant construction teams include as many as 1,000 workers and have organized their own training classes in order to compete against state-owned enterprises. Most peasant efforts are small-scale and periodic in nature, but provide additional opportunities for rural employment while introducing some measure of competition and efficiency into a highly bureaucratic and wasteful capital construction organization.

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The State Planning Commission hopes to extend these reform measures to include an increasing number of state projects as China moves into its Seventh Five-Year-Plan (1986-1990).

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Housing Sales

One of China's greatest budgetary burdens is the subsidization of urban housing. Rents charged to urban workers in most cases do not even cover maintenance costs. The drain on the budget is too strong to allow the Chinese to accelerate housing construction enough to meet present and future needs. Reform programs in China have allowed both urban and rural workers to seek greater incomes through private enterprise or wage bonuses. As a result, the level of personal savings in China has risen tremendously. The Chinese are now selling houses and apartments on a small but increasing scale. The introduction of housing sales allows them to tap personal savings and make some inroads on the costs of urban housing presently borne by the government. Over time, China is likely to increase the proportion of housing that is sold by the state rather than rented. Consequently, the need to better develop credit and financial instruments in China to deal with the introduction of home ownership will increase. []

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Progress to date in this area has been noteworthy. Shanghai offered 4,000 apartments for sale this year at a cost of about \$9,000 each. Owners were to pay one third of the purchase price, and their employers paid the rest. Similar loans are to be issued in 77 large and medium cities throughout China. Housing prices tend to be much lower outside of Shanghai: \$5,000 in Shenyang, or \$3800 in Changzhou will buy a similar apartment. []

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Quality Problems

The tremendous activity in Chinese construction in the last few years has created some problems as well as opportunities. This year there have been incidents in Hunan, Sichuan, and Fujian provinces in which theaters or other buildings collapsed, with loss of life and property. MURCEP has established qualifying examinations for design and construction work by collectives, but some problems are apparently emerging with unqualified bidders using falsified documents to obtain contracts. MURCEP has called for structural examinations of buildings erected by both state organizations and collectives in recent years. []

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Administrative Problems

The problems described by Shanghai's urban planners to the HUD delegation last year have apparently led to an administrative reorganization of the Shanghai Municipality. This month, the satellite cities within the municipality that surrounded urban Shanghai were placed under its direct control. A spokesman said this would help spread Shanghai's urban population and ease communications and housing problems. Last year, planners decried their inability to entice ur-

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ban Shanghai residents to move voluntarily to the satellite cities. This change should facilitate efforts by the municipal government to relocate factories and their workers out to the former satellites, where new housing has been sitting vacant. []

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Survey Work

China's first urban housing survey will begin later this year, examining the amount, quality, and utilization of houses in more than 280 cities, 3,000 county towns, and other industrial and mining areas. Undertaken jointly by MURCEP and the State Statistical Bureau, the survey will help urban planners prepare urban development plans and make rational use of urban land. Survey completion is expected by June, 1986. Methods and procedures have not been described. []

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Rural Housing

In addition to the reforms spelled out by Li Ximing regarding standardization of rural housing, China has set up a national company to supply complete sets of the materials needed in rural house building. The company was set up not by MURCEP, but by the State Bureau of the Building Materials Industry. The company will sell materials, and also contract to build and sell houses. The Chinese hope this company will provide an improved and less wasteful channel of building materials supplies to rural areas. []

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Housing Construction Research

In December 1983, Beijing established the Beijing Housing Construction Research Society, an academic institution that is to conduct research on the economics of housing construction and act as consultants to the municipal government. The society will also study information and research results related to housing construction both at home and abroad. Members of the society include Yang Zhenyang, Lu Yu, Su Xing, Zhang Bo, Li Zhun and others. We have no further information on its activities to date. []

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Areas of Possible Cooperation

HUD's experience in administration of urban construction and housing may be of use to the Chinese, both in the administration of the reforms described above and in the activities of new organizations and companies described. The emphasis of reforms on using bidding procedures to award construction contracts may increase Chinese interest in U.S. experience with such procedures. Efforts to sell homes and provide credit instruments for these sales may also spur efforts to tap American expertise. Construction quality problems could provide an op-

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portunity to discuss both building standards and bidders' qualification procedures and standards. We have no information regarding China's methods of collecting and analyzing data for its first urban housing survey, but the Chinese may be amenable to exchanges or joint participation in this area. Finally, construction research efforts, even at the municipal level, appear accessible to foreign involvement and may provide points of departure for future protocol activity. While some of the developments described above are not directly related to MURCEP, Li Ximing may be amenable to securing the participation of these research organizations or construction companies in further protocol activity.

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Developments in Commercial Possibilities in China's Construction

Japanese and Australian firms have concluded important deals this year with China in construction and building materials. On September 17, a contract was signed between the China International Trust and Investment Corporation (CITIC) and the Shimizu Construction Company Ltd. of Japan. The contract is for the design of a 50-story building with 32,000 square meters of office space and 270 apartments, to be built near the embassy area of Beijing. It will be part of a complex including 4 to 9 story apartment buildings. The Chinese expect the design to be completed in three to five months and hope to have the whole project complete by 1987.

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The Japanese have also announced plans for a joint venture with China to construct what appears to be the housing and hotel complex described above. Seventeen Japanese companies set up a joint company in August to work toward a joint venture with the Chinese to build an 80 million dollar office/apartment/hotel complex in Beijing, scheduled for completion in 1987.

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The Japanese have also been actively exploring construction opportunities in Shanghai. In May 1984 the Nomura Securities Co. Ltd. held a Shanghai Investment Seminar in Tokyo, open only to Japanese firms, to solicit Japanese investments in urban development projects in Shanghai. The two main speakers were Liu Jingji of the Shanghai Investment and Trust Corporation, and Huang Wenpin of the Shanghai Minxing and Hongqiao Development Corporation. No investments resulting from this seminar have as yet been observed.

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The Australians and Japanese have both been involved in China's building materials industries this year. On August 29, the Australian firm BHP Company Ltd. signed a A\$ 48 million contract with Chinese trade representatives to build a cement plant in Fujian Province. BHP will design, manage, and supply machinery and equipment for the 2000 ton/day cement clinker production plant at Shunchang, scheduled for completion in 1988. A mixed credit finance package was arranged for the project, including Australian Export Finance and Insurance Company funds and Australian Development Assistance Bureau Funds. Last week, imported Japanese equipment was turned over to China at its largest cement plant, in eastern Hebei Province. The plant has been in trial production this

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year and will eventually produce 1.55 million tons of high-grade cement per year. [REDACTED]

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Chinese press reports in recent months have highlighted the progress in their building materials industry. According to the Economic Daily, China has set up building materials bases in several major cities to produce prefabricated concrete components, plaster, glass, and thermal insulating and fireproof materials. [REDACTED]

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Airport Development

The Chinese recently sought FAA contacts to exchange technical data on airports in order to improve management and communications standards. The request came from Sun Jingao of CAAC Beijing Regional Administration. The request might indicate that U.S. airport specialists may want to consider contacts outside of MURCEP, possibly arranged through MURCEP, for further discussions or exchanges regarding U.S. participation in China's airport improvements. A July Guangdong Province Work Report indicates an interest on the part of the province to expand its airports. [REDACTED]

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U.S. Commercial Potential

One problem with furthering U.S. commercial expectations via the protocol with MURCEP is the nature of the Chinese bureaucracy. MURCEP may not be the proper point of contact for many US ventures, and the bureaucracy may work against MURCEP successfully lining up interested US firms with the proper contacts. [REDACTED]

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The Chinese might well be interested in examining not only U.S. building material technologies, but packaging of home kits, like U.S. log home kits, and prefabricated housing, in order to better address their problems with rural housing. The management or organization of these industries would probably be of more interest than the technologies or materials used in American homes. Interest would be more likely to lead to visits and exchanges rather than commercial contracts. [REDACTED]

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A perusal of successful deals with the Chinese this year suggests that United States' firms compete at a disadvantage because of a lack of concessionary financing and low interest rates. Firms hoping to conclude deals

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with the Chinese in construction or in the building materials industries will have to offer the Chinese a unique product or product package to offset Japanese and Australian financing of their international deals. The implication here is that U.S. firms are more likely to be competitive in providing engineering and consulting expertise that is demonstrably better or different from that available elsewhere.

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